MANITOBA
ENERGY
AUTHORITY

THE MANITOBA ENERGY AUTHORITY

SEVENTH ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31, 1989

90-00831/

The Honourable George Johnson
Lieutenant Governor of the Province of Manitoba

May it please your Honour:

I have the honour of presenting to you the Seventh Annual Report of The Manitoba Energy Authority for the fiscal year ended March 31, 1989.

Respectfully,

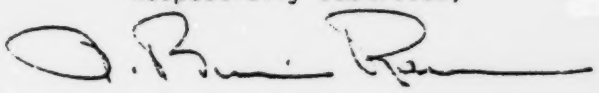
Harold J. Neufeld
Minister

The Honourable Harold Neufeld
Minister Responsible for
The Manitoba Energy Authority
Province of Manitoba
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Sir:

I have the honour of presenting the Seventh Annual Report of The Manitoba Energy Authority together with financial statements for the fiscal year ended March 31, 1989.

Respectfully submitted,



A. Brian Ransom
Chairman
Board of Directors
The Manitoba Energy Authority

THE MANITOBA ENERGY AUTHORITY

LEGISLATIVE MANDATE

The Manitoba Legislature established The Manitoba Energy Authority through The Manitoba Energy Authority Act. The Act assigns to the Authority the responsibility to formulate and carry out energy policies designed to assure a continuing and adequate supply of energy in the province; to alleviate the effects of any energy shortage that may occur in the province; and to promote the establishment, development and operation within the province of industries and undertakings that are by their nature energy-dependent.

This mandate makes The Manitoba Energy Authority responsible for investigating potential extra-provincial markets for electrical energy and to negotiate or direct negotiations for the sale or purchase of electrical energy exported from or imported to the province. The Authority is mandated to compile and review data on the supply and demand for energy so as to keep the Minister of Energy and Mines apprised of current conditions relating to the present and future availability of energy supplies in the province, in Canada and in other countries.

In addition, The Manitoba Energy Authority undertakes related duties as directed by the Minister of Energy and Mines or the Lieutenant Governor in Council. The Authority has been charged with the responsibility to coordinate public policy objectives related to the construction of the Limestone Generating Station, particularily with regard to purchasing and tendering, industrial benefits, and training and employment.

This mandate has been administered by the Authority's Board of Directors through its standing committees. The Board's* six members are appointed by the Government of Manitoba. The current members are:

A. Brian Ransom	Chairman
John J. Arnason	Vice-Chairman Former President and Chief Executive Officer Manitoba Hydro
Garry H. Beatty	President and Chief Executive Officer Manitoba Hydro
John S. McCallum	Faculty of Management University of Manitoba
Ian Haugh	Deputy Minister Manitoba Energy and Mines
Hugh Eliasson	Deputy Minister Manitoba Industry, Trade and Tourism

* Board members during the year under review also included Marc Eliesen, former Chairman, and Charles S. Kang.

ACTIVITIES OF THE MANITOBA ENERGY AUTHORITY

POWER EXPORT NEGOTIATIONS

The Electrical Energy Marketing Committee is established to investigate potential extra-provincial markets for electrical energy; and to negotiate or direct negotiations for the sale or purchase of electrical energy exported from or imported to the province.

In the 1988-89 fiscal year, The Manitoba Energy Authority, in conjunction with Manitoba Hydro, was active in negotiations with electric utilities in Canada and the United States.

Negotiations continued throughout the year with Ontario Hydro. During the year the emphasis in negotiations shifted to a larger, potential sale of 1000 megawatts for 20 years, starting in the late 1990's.

Negotiations on a diversity exchange agreement and a new transmission line with Northern States Power Company and United Power Association, both of Minnesota, proceeded during the year. The prospect under discussion was for a 300 megawatt seasonal diversity exchange agreement starting in the mid 1990's and a new 230 kV transmission line to northern Minnesota.

The diversity exchange involves the above two U.S. companies that, as part of the Upper Mississippi Power Group (UMPG), had been negotiating a firm power purchase and diversity exchange with Manitoba in the previous year. The negotiations involving the UMPG ceased in 1988 as a result of internal disagreements among the UMPG utilities.

Negotiations on both of these export proposals were ongoing at the end of the fiscal year.

The Electrical Energy Marketing Committee's membership is appointed by the Authority's Board of Directors. Current members are:

A. Brian Ransom	Chairman
John J. Arnason	Member
John S. McCallum	Member
R.B. (Bob) Brennan	Senior Vice-President Finance and Administration and Chief Financial Officer Manitoba Hydro

R.O. (Ralph) Lambert	Senior Vice-President Energy Supply Manitoba Hydro
H. Clare Moster	Assistant Deputy Minister, Energy Division Manitoba Energy and Mines

ENERGY POLICY

The Energy Allocation Committee is established to investigate and review data respecting the supply of and demand for energy; to develop plans for the allocation of supplies of energy; to investigate and review the plans or programs of other provinces or countries for the allocation of supplies of energy; and to maintain a continuing liaison with the Government of Canada with respect to the actual or prospective implementation of The Energy Supplies Emergency Act, 1979 (Canada).

The Energy Division of the Department of Energy and Mines, on behalf of the Energy Allocation Committee, continues to review petroleum supply and demand, and liaise with the Government of Canada and other provinces on energy planning issues. The Energy Allocation Committee is undertaking a review of the Province's existing organization for contingency planning to ensure the Province's agencies' efforts are adequately coordinated in the event of an energy crisis.

The Energy Allocation Committee's membership is appointed by the Authority's Board of Directors. Current members are:

A. Brian Ransom	Chairman
John J. Arnason	Member
Ian Haugh	Member

ENERGY INTENSIVE INDUSTRIAL DEVELOPMENT

Over the past year the Authority has worked closely with government and private sector representatives on a number of specific industrial endeavors. The Authority and Dow Corning Corporation of Midland, Michigan executed a Memorandum of Understanding dated November 1, 1988 to pursue a Silicon Products Commercial Development Program. The objectives of this joint commercial development program are to verify and utilize advanced technologies such as plasma processing in the manufacture of silicon products in Manitoba, using Manitoba silica sand and hydro-electricity.

The development program consists of three project stages, with milestones to be defined and realized at each stage. Separate Subsidiary Agreements are to be negotiated for each stage defining financial and contractual management terms. Costs are shared among the Authority, Dow Corning and the Western Economic Diversification Program (Government of Canada).

Progress under the Stage I Subsidiary Agreement, feasibility testing of Manitoba silica sand for producing silicon metal in a plasma fired, closed furnace, has been satisfactory and Stage II Subsidiary Agreement negotiations (construction and operation of a pilot plant in Manitoba) are proceeding.

Promotional research and commercial activities have been pursued with a number of Japanese, European and American firms associated with various silicon related opportunities, particularly in the area of new ceramics applications. In collaboration with the Department of Energy and Mines, the Authority has been examining stainless steel manufacturing possibilities based on the extraction and processing of Manitoba's chromite deposits.

In order to provide a framework for the investigation and development of these initiatives The Manitoba Energy Authority has entered into industrial cooperation agreements with several international firms. To date, such arrangements have been concluded with a number of financial institutions, trading companies and manufacturing firms.

The Authority concluded discussions with Alumax Inc. of San Mateo, California regarding a possible aluminum smelter development in the province. During the course of discussions the Authority tabled a comprehensive proposal with Alumax which, an aluminum industry consultant advised, would rank the operating costs of a Manitoba location among the lowest 30% in the world. Despite the considerable efforts of both the Authority and, as well, Manitoba Hydro, discussions on this project were suspended March 22, 1989.

LIMESTONE PLANNING AND COORDINATION

The Authority continued to assist Manitoba Hydro with the evaluation of Manitoba content on large Manitoba Hydro contracts.

In the past year, the Authority concluded contractual arrangements for an industrial benefits agreement with Marine Industries Ltd. (M.I.L.) in conjunction with the $32.5 million contract to supply Manitoba Hydro with three synchronous condensers for the Dorsey Converter Station. In addition, the Authority continued to administer an industrial benefits agreement with General Electric Canada, associated with the supply of turbines and generators for Limestone.

Responsibility for the administration of Limestone training and employment programs was transferred from the Authority to the Department of Education and Training effective June 28, 1988. Vocational and academic training continues to take place in established educational institutions, in northern communities or at a simulated job site training centre in Thompson.

THE MANITOBA ENERGY AUTHORITY

Financial Statements
for the Year Ended March 31, 1989
and Auditors' Report to the Directors

Deloitte
Haskins+Sells

Suite 2100
360 Main Street
Winnipeg, Manitoba R3C 3Z3
(204) 949-1370
Facsimile: (204) 947-2689

AUDITORS' REPORT

To the Board of Directors of
The Manitoba Energy Authority:

We have examined the balance sheet of The Manitoba Energy Authority as at March 31, 1989 and the statements of operations and accumulated revenue deficiency and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Authority as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants

May 17, 1989

THE MANITOBA ENERGY AUTHORITY

BALANCE SHEET

MARCH 31, 1989

	1989	1988
ASSETS		
CURRENT ASSETS		
Cash	$119,821	$ 28,928
Accounts receivable	36,701	7,841
Prepaid expenses and other assets	18,587	4,812
	175,109	41,581
FIXED ASSETS - at cost, less accumulated depreciation (Note 3)	68,807	86,237
DEFERRED PENSION COSTS	165,041	174,210
OTHER ASSETS, at cost	4,336	4,336
	$413,293	$ 306,364
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$137,048	$ 65,810
Accrued interest payable	-	77,735
	137,048	143,545
ADVANCES DUE TO THE PROVINCE (Note 1)	-	3,288,095
DEFERRED REVENUE	25,316	25,316
UNFUNDED PENSION LIABILITY	268,056	221,666
	430,420	3,678,622
REVENUE DEFICIENCY		
ACCUMULATED REVENUE DEFICIENCY	(17,127)	(3,372,258)
	$413,293	$ 306,364

Approved by the Board:

.....Director

.....Director

THE MANITOBA ENERGY AUTHORITY

STATEMENT OF OPERATIONS AND ACCUMULATED REVENUE DEFICIENCY

YEAR ENDED MARCH 31, 1989

	1989	1988
REVENUE		
Grant receipts	$ 1,734,163	$ -
Miscellaneous revenue	514	460
	1,734,677	460
EXPENSES		
Operating expenses		
Personnel services	894,577	681,944
Grants	-	20,000
Travel	59,483	101,208
Communications	23,297	70,962
Rentals	99,187	98,675
Professional services	481,855	341,008
Interest expense	59,860	244,675
Depreciation and amortization	17,836	21,650
Other operating	31,546	92,395
	1,667,641	1,672,517
NET REVENUE (DEFICIENCY) FOR THE YEAR	67,036	(1,672,057)
ACCUMULATED REVENUE DEFICIENCY, BEGINNING OF YEAR	(3,372,258)	(3,112,106)
REVENUE DEFICIENCY DISCHARGED BY THE PROVINCE OF MANITOBA (Note 1)	3,288,095	1,411,905
ACCUMULATED REVENUE DEFICIENCY, END OF YEAR	$ (17,127)	$(3,372,258)

THE MANITOBA ENERGY AUTHORITY

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1989

	1989	1988
OPERATING ACTIVITIES		
Revenue (deficiency) for the year	$ 67,036	$(1,672,057)
Items not affecting cash flow		
Depreciation	17,836	21,650
Amortization of deferred pension costs	9,169	9,168
Current service pension costs	46,390	38,288
Cash flow from earnings	140,431	(1,602,951)
(Increase) in accounts receivable	(28,860)	(4,709)
Decrease in appropriation receivable	-	69,108
(Increase) in prepaid expenses and other assets	(13,775)	(2,059)
Increase (decrease) in accounts payable and accrued liabilities	71,238	(32,559)
(Decrease) increase in accrued interest payable	(77,735)	8,627
Increase in deferred revenue	-	208
	91,299	(1,564,335)
INVESTMENT ACTIVITIES		
Fixed asset additions	(902)	(23,649)
Proceeds on disposal of fixed assets	496	-
Purchase of other assets	-	(212)
	(406)	(23,861)
FINANCING ACTIVITIES		
Advances from the Province of Manitoba	-	1,575,000
TOTAL CASH PROVIDED (USED)	90,893	(13,196)
CASH, BEGINNING OF YEAR	28,928	42,124
CASH, END OF YEAR	$119,821	$ 28,928

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1989

1. AUTHORITY AND MANDATE

The Manitoba Energy Authority is incorporated under a specific statute in the Province of Manitoba, being "The Manitoba Energy Authority Act", Chapter E112 of the Continuing Consolidation of the Statutes of Manitoba.

The Authority is responsible for the following:

(i) Developing and implementing policies to ensure the long-term stability and availability of electrical energy supply to Manitobans.

(ii) Through its Electrical Energy Marketing Committee, for negotiating export sales of electrical energy with other provincial utilities and with utilities in the United States.

(iii) For promoting the establishment, development and operation of energy intensive industries within the province.

(iv) For co-ordinating all governmental and Manitoba Hydro activities related to industrial and employment benefits associated with the Limestone Generating Station Project.

The Limestone Training and Employment Agency (LTEA) was established with the approval of the Board of Directors of The Manitoba Energy Authority, under Ministerial direction, pursuant to Section 4 of The Manitoba Energy Authority Act, March 25, 1985. Effective July 14, 1987, the Agency was incorporated as a wholly owned subsidiary of The Manitoba Energy Authority under Section 9 of The Manitoba Energy Authority Act. The LTEA organizes all aspects of Limestone-related training, and ensures that northern Manitoba residents have ample opportunities to obtain employment on the project and permanent employment related to the electrical industry.

Consistent with Ministerial intent to ensure that the Authority exercises no control over the LTEA's assets or operations, the Authority does not and will not include the reporting of the Limestone Training and Employment Agency's financial activities in its financial statements. The LTEA will publish its own financial statements incorporating the disbursements of the Departments of Education, Employment Services and Economic Security, and Labour for Limestone-related training, as well as its own direct expenditures.

The Legislature has authorized the borrowing and spending of monies for the operations of The Manitoba Energy Authority as follows:

Legislative Authority	-	The Loan Act, 1984
Authorization	-	$5,000,000
Unexpended balance as at March 31, 1989	-	Nil

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1989

1. AUTHORITY AND MANDATE (continued)

Commencing with the March 31, 1987 year, the Government of the Province of Manitoba changed its accounting policy regarding the treatment of the value of its assets related to Crown corporations, Agencies, Boards and Commissions, whereby the Province writes down the value of its assets based on the non-recoverable cumulative losses recorded by each of these entities.

The application of this policy to the Authority has resulted in the reduction of advances from the Province of Manitoba through forgiveness in the amount of $3,288,095 as at March 31, 1989, ($1,411,905 at March 31, 1988) by way of Order-in-Council 1266/88.

Consistent with this policy change, the annual budget of the Authority is being provided from an appropriation of the Consolidated Fund as and from April 1, 1988. As a consequence, the funding of the Authority by way of grant payments from current budgetary appropriations represents a charge against the Province in the year in which such payments are made and does not represent an investment by the Province in the Authority. It is expected that the Authority will operate in a manner such that any accumulated surplus or deficit will be minimized on an annual basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Pension costs

Pursuant to Section 29 of The Manitoba Energy Authority Act, the Lieutenant Governor in Council has directed that The Civil Service Superannuation Act apply to employees who were employed under The Civil Service Act immediately prior to becoming employed as officers or employees of The Manitoba Energy Authority effective the date on which they become employed with The Manitoba Energy Authority. In accordance with the provisions of The Civil Service Superannuation Act, the Authority is required to contribute 50% of the pension disbursement made to its retired employees. There has been no funding of pension obligations to date.

The cost of pension benefits provided in exchange for employees' services rendered in the period are determined using the projected benefit method prorated on services. Deferred pension costs represent the unamortized present value of the pension plan deficit which arose on commencement of the plan. Deferred pension costs are being amortized on a straight-line basis over a period of 20 years.

The Authority has also established a Money Purchase Pension Plan for those employees who do not contribute to The Civil Service Superannuation Fund. This Plan provides for full vesting after a qualifying period by the employees. Both the Authority and the employees contribute to the Plan on the basis of the employees' regular salary.

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1989

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Depreciable assets other than leasehold improvements are depreciated at the rate of 20% per year on the declining-balance basis.

Leasehold improvements are amortized on the straight-line method over the life of the lease, a period of five years.

3. FIXED ASSETS

The major categories of fixed assets and related accumulated depreciation as at March 31, 1989 are as follows:

	1989			1988
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and office equipment	$ 82,833	$47,292	$35,541	$44,922
Computer equipment	69,453	42,352	27,101	32,973
Leasehold improvements	10,649	4,484	6,165	8,342
	$162,935	$94,128	$68,807	$86,237

4. NORTHERN STATES POWER COMPANY (NSP) CONTRACT

The Authority negotiated and is co-signer with The Manitoba Hydro-Electric Board in an agreement dated June 14, 1984 to supply 500 MW or 500,000 kilowatts of power to NSP for a 12 year period, May 1, 1993 to April 30, 2005, at an annual average capacity factor of 75%.

Under the terms of The Manitoba Energy Foundation Act, being Chapter 13 of the Statutes of Manitoba, 1986-87 (which may be referred to as Chapter E114 of the Continuing Consolidation of the Statutes of Manitoba), the Authority and Manitoba Hydro shall each be reimbursed an amount equal to the expense incurred by each in negotiating or directing the negotiation of any agreement respecting the long-term export sale of hydro-electric power. Such sales made on and after January 1, 1984 must be designated by an order of the Lieutenant Governor in Council as an agreement for the purpose of The Manitoba Energy Foundation Act.

The Authority and Manitoba Hydro will be reviewing each other's attributable costs to establish reimbursable charges. However, as a result of the forgiveness by the Province of loan advances to the Authority and the change in funding for the Authority set out in Note 1, any recovery of such charges by the Authority would be forwarded to the Province of Manitoba.

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1989

5. FUTURE COMMITMENTS

Future minimum rental payments required under operating leases for the years ending March 31 are as follows:

1990	$80,281
1991	83,492
1992	69,577

The Authority has also entered into consulting contracts and other agreements which have a potential future obligation of approximately $197,692.